Summary of the District's Financial Impact of Chapter 313 Agreement with Easter Renewable Energy Project, LLC

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Summary of Dimmitt ISD Financial Impact

of the

Limited Appraised Value Application

from

Easter Renewable Energy Project, LLC

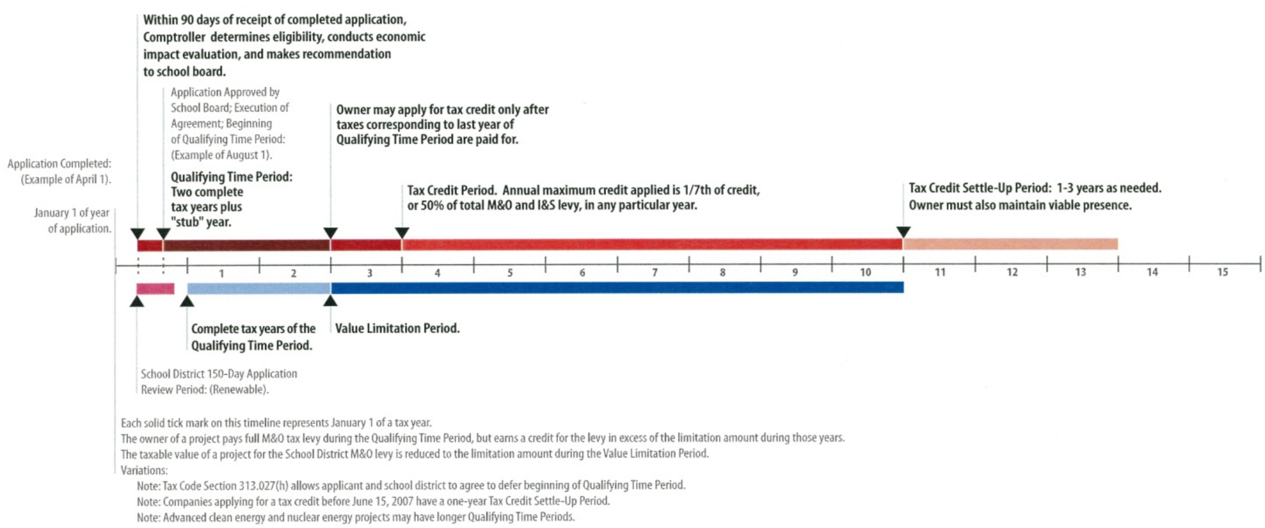
Introduction

Easter Renewable Energy Project, LLC applied for a property value limitation from Dimmitt Independent School District under Chapter 313 of the Tax Code. The application was submitted on December 2, 2013 and subsequently approved for consideration by the Dimmitt ISD Board of Trustees. Easter Renewable Energy Project, LLC ("Easter Energy"), is requesting the property value limitation as a "renewable energy electric generation" project as listed in Sec. 313.024.(b) of the Tax Code.

"The Economic Development Act ", Tax Code Chapter 313, was created by House Bill 1200 of the 77th Texas Legislature in 2001. Further amendments were made to Chapter 313 as a result of House Bill 1470 from the 80th Texas Legislative Session in 2007.

The Economic Development Act was created to attract qualifying businesses to Texas by allowing school districts the option of approving a property value limitation to these qualifying entities. The purpose of the property value limitation is to reduce the maintenance and operations taxes paid by the company, to a school district during the applicable years as displayed below.

Appraised Value Limitation and Credit under Tax Code Chapter 313 for School District Maintenance & Operations (M&O) Tax



The company must file an application with the school district to qualify for consideration of a Limited Appraised Value Agreement ("LAVA" or "Agreement") to begin the following tax year or a later year if agreed upon by the District and the Company. The first two years of the agreement are considered the qualifying time period and the company's school district taxes will be levied at one-hundred percent of the appraised value. The applicant may then file a separate application with the school district to request tax credits (for taxes paid during the qualifying time period) to be applied during years four through ten of the LAVA, but not to exceed 50% of their tax levy for those years. Any tax credit balance remaining after this period can then be applied during years eleven through thirteen of the agreement, but cannot exceed the actual amount of taxes paid to the school district during the Settle-Up Period. After year thirteen, any leftover credits will not be applied and will expire.

During years three through ten of the LAVA, the qualifying entity's taxable value will be reduced to the minimum qualified investment for the applicable school district as determined by the State Comptroller's Office. Dimmitt ISD is considered a Rural category 3 District as categorized with total taxable value of industrial property of at least $1 million but less than $90 million, thus Dimmitt ISD has a minimum qualified investment amount of $10 million. A qualifying entity's taxable value would be reduced to $10 million during years three through ten of the agreement for the purposes of computing the tax levy for the maintenance and operations (M&O) tax of Dimmitt ISD. The entire appraised value will be used for computing the interest and sinking (I&S) tax levy.

Taxable Value Impact from LAVA

The "Additional Value from Easter Energy" represents the values that the company estimated as their taxable values in the application that was filed with the district. During years three through ten, the company's taxable value will be limited to the $10,000,000 minimum qualified investment of Dimmitt ISD.

TABLE I- Calculation of Taxable Value:

Tax Year	Additional Value From Easter Energy	Minimum Qualified Investment	Abated Value	Taxable Value
Jan. 1, 2015	0	n/a	0	0
Jan. 1, 2016	130,000,000	n/a	0	130,000,000
Jan. 1, 2017	315,000,000	(10,000,000)	305,000,000	10,000,000
Jan. 1, 2018	302,660,800	(10,000,000)	292,660,800	10,000,000
Jan. 1, 2019	290,746,368	(10,000,000)	280,746,368	10,000,000
Jan. 1, 2020	279,116,513	(10,000,000)	269,116,513	10,000,000
Jan. 1, 2021	267,951,853	(10,000,000)	257,951,853	10,000,000
Jan. 1, 2022	257,233,779	(10,000,000)	247,233,779	10,000,000
Jan. 1, 2023	246,944,427	(10,000,000)	236,944,427	10,000,000
Jan. 1, 2024	237,066,650	(10,000,000)	227,066,650	10,000,000
Jan. 1, 2025	227,583,984	n/a	0	227,583,984
Jan. 1, 2026	218,480,625	n/a	0	218,480,625
Jan. 1, 2027	209,741,400	n/a	0	209,741,400

Easter Energy's Tax Benefit from Agreement

The projected amount of the net tax savings for Easter Energy is $19.93 million over the life of the Agreement. This net savings is after all tax credits have been applied and after estimated payments have been made to the district to offset their revenue losses that were a direct result of entering into this Agreement. Tax credits during years four through ten are limited to the lesser of 1/7 of the total tax credit or 50% of the total taxes paid for that tax year. Any tax credits not refunded to the company during those years will be refunded up to 100% of the taxes paid in years eleven through thirteen.

Dimmitt ISD's projected tax rates for maintenance & operations (M&O) and interest & sinking (I&S) are based on the following assumptions:

- The District has not held a tax ratification election and the study projects that it will maintain an M&O tax rate of $1.04 for the life of this agreement.
- The district currently has outstanding bonded indebtedness that are scheduled to payoff in 2037 and currently has a $.33 I&S rate. The annual debt payment is approximately $1,080,000. The additional value of the company will further reduce the I&S tax rate. The district could pursue a bond election and issue additional bonded debt during the life of this agreement.

TABLE II- Computation of Net Tax Savings:

Fiscal Year	Projected M&O Tax Rate	Projected I&S Tax Rate	Taxes w/o Agreement	Tax Savings with Agreement	Tax Credits	Payment of District's Revenue Losses	Net Tax Savings
2015-2016	1.040	0.286	0	0	n/a	0	0
2016-2017	1.040	0.190	1,352,000	0	n/a	0	0
2017-2018	1.040	0.188	3,276,000	3,172,000	n/a	(3,331,535)	(159,535)
2018-2019	1.040	0.190	3,147,672	3,043,672	178,286	0	3,221,958
2019-2020	1.040	0.192	3,023,762	2,919,762	178,286	0	3,098,048
2020-2021	1.040	0.193	2,902,812	2,798,812	178,286	0	2,977,097
2021-2022	1.040	0.195	2,786,699	2,682,699	178,286	0	2,860,985
2022-2023	1.040	0.196	2,675,231	2,571,231	178,286	0	2,749,517
2023-2024	1.040	0.198	2,568,222	2,464,222	178,286	0	2,642,508
2024-2025	1.040	0.198	2,465,493	2,361,493	178,286	0	2,539,779
2025-2026	1.040	0.199	2,366,873	0	0	0	0
2026-2027	1.040	0.200	2,272,199	0	0	0	0
2027-2028	1.040	0.200	2,181,311	0	0	0	0
Totals			**31,018,275**	**22,013,892**	**1,248,000**	**(3,331,535)**	**19,930,357**

Financial Impact Study

This Financial Impact Study was performed to determine the financial impact of the Limited Appraised Value Agreement on Dimmitt ISD. First, a thirteen year financial forecast was prepared to establish a baseline without the added values of the renewable energy electric generation company. Second, a thirteen year financial forecast was prepared that incorporated the additional taxable value of the company without a LAVA in effect. Third, a thirteen year financial forecast was prepared that incorporates the additional taxable value of the company with an approved LAVA. These three forecasts are detailed in the "Calculation of LAVA Impact on District's Finances" section. The following assumptions were used to compare the financial impact of the LAVA:

- The current state funding formulas (in effect for 2013-2014 fiscal year) were used for state aid and recapture calculation purposes
    - Level 2 of Tier II yield - $61.86 per weighted student in average daily attendance (WADA) per penny of tax effort
- The district's tax rate for maintenance & operations (M&O) will remain at the same rate as for tax year 2013.
- A tax collection rate of 100% on current year tax levy with no projected delinquent taxes
- An annual taxable value increase of 2.5% was used to project the district's taxable value, except as it related to the requested LAVA. The district's 2013 taxable value was used as a baseline for all projections
- The district's enrollment is projected to decrease slightly; therefore, the projected ADA and WADA for school year 2013-2014 was decreased by .5% per year for the life of the agreement.

Although these assumptions were used to develop a baseline scenario for comparison purposes, many of these factors will not remain constant for the thirteen years of this proposed agreement. Also, Legislative changes to the school finance formulas are likely during the near future and almost certain during the life of this agreement.

Calculation of LAVA Impact on District's Finances

The tables displayed below (Table III, IV, V) show the different impacts on the school district's finances. These scenarios were computed to compare the District's revenue without the additional taxable value of Easter Energy (Table III), the addition of Easter Energy's taxable values without a Chapter 313 Agreement (Table IV), and the addition of Easter Energy's taxable values with a Chapter 313 Agreement (Table V).

TABLE III – District Revenues *without* Easter Energy:

Fiscal Year	Total Taxable Value	M&O Taxes Compressed Rate	State Revenue	Recapture Amount	Tier I Total Revenue	Revenue Above Comp Rate	Total District Revenue
2015-2016	245,875,325	2,458,753	6,987,155	0	9,445,908	453,056	9,898,964
2016-2017	252,022,208	2,520,222	6,879,303	0	9,399,526	450,576	9,850,101
2017-2018	258,322,763	2,583,228	6,769,963	0	9,353,191	448,114	9,801,305
2018-2019	264,780,833	2,647,808	6,659,051	0	9,306,860	445,671	9,752,530
2019-2020	271,400,353	2,714,004	6,551,713	0	9,265,716	443,246	9,708,962
2020-2021	278,185,362	2,781,854	6,437,545	0	9,219,398	440,838	9,660,237
2021-2022	285,139,996	2,851,400	6,321,727	0	9,173,127	438,449	9,611,576
2022-2023	292,268,496	2,922,685	6,204,104	0	9,126,789	436,076	9,562,866
2023-2024	299,575,209	2,995,752	6,089,925	0	9,085,677	433,721	9,519,398
2024-2025	307,064,589	3,070,646	5,968,745	0	9,039,390	431,383	9,470,774
2025-2026	314,741,204	3,147,412	5,850,881	0	8,998,293	429,062	9,427,354
2026-2027	322,609,734	3,226,097	5,725,927	0	8,952,024	426,757	9,378,781
2027-2028	330,674,977	3,306,750	5,599,446	0	8,906,196	424,468	9,330,664

TABLE IV- District Revenues *with* Easter Energy *without* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes Compressed Rate	State Revenue	Recapture Amount	Tier I Total Revenue	Revenue Above Comp Rate	Total District Revenue
2015-2016	245,875,325	2,458,753	6,986,623	0	9,445,376	453,056	9,898,432
2016-2017	382,022,208	3,820,222	6,852,773	0	10,672,996	695,521	11,368,516
2017-2018	573,322,763	5,733,228	5,406,436	0	11,139,664	649,389	11,789,053
2018-2019	567,441,633	5,674,416	3,447,995	0	9,122,412	426,165	9,548,577
2019-2020	562,146,721	5,621,467	3,466,434	0	9,087,901	424,466	9,512,367
2020-2021	557,301,875	5,573,019	3,473,740	0	9,046,758	422,679	9,469,437
2021-2022	553,091,849	5,530,918	3,476,455	0	9,007,374	421,045	9,428,419
2022-2023	549,502,275	5,495,023	3,472,625	0	8,967,648	419,413	9,387,061
2023-2024	546,519,636	5,465,196	3,467,687	0	8,932,883	417,782	9,350,665
2024-2025	544,131,239	5,441,312	3,451,379	0	8,892,691	416,152	9,308,843
2025-2026	542,325,188	5,423,252	3,434,192	0	8,857,444	414,520	9,271,964
2026-2027	541,090,359	5,410,904	3,405,889	0	8,816,792	412,887	9,229,680
2027-2028	540,416,377	5,404,164	3,377,283	0	8,781,447	411,252	9,192,699

TABLE V – District Revenues *with* Easter Energy *with* Chapter 313 Agreement:

Fiscal Year	Total Taxable Value	M&O Taxes Comp Rate	State Revenue	Recapture Amount	Tier I Total Revenue	Revenue Above Comp Rate	Payment for District Losses	Total District Revenue
2015-2016	245,875,325	2,458,753	6,986,623	0	9,445,376	453,056	0	9,898,432
2016-2017	382,022,208	3,820,222	6,852,773	0	10,672,996	695,521	0	11,368,516
2017-2018	268,322,763	2,683,228	5,467,436	0	8,150,664	306,854	3,331,535	11,789,053
2018-2019	274,780,833	2,747,808	6,556,527	0	9,304,336	444,971	0	9,749,306
2019-2020	281,400,353	2,814,004	6,449,192	0	9,263,195	442,573	0	9,705,768
2020-2021	288,185,362	2,881,854	6,335,027	0	9,216,880	440,191	0	9,657,072
2021-2022	295,139,996	2,951,400	6,219,211	0	9,170,611	437,827	0	9,608,437
2022-2023	302,268,496	3,022,685	6,101,591	0	9,124,276	435,478	0	9,559,754
2023-2024	309,575,209	3,095,752	5,987,414	0	9,083,166	433,146	0	9,516,312
2024-2025	317,064,589	3,170,646	5,866,237	0	9,036,882	430,830	0	9,467,712
2025-2026	542,325,188	5,423,252	5,704,859	0	11,128,111	711,380	0	11,839,491
2026-2027	541,090,359	5,410,904	3,405,889	0	8,816,792	412,887	0	9,229,680
2027-2028	540,416,377	5,404,164	3,377,283	0	8,781,447	411,252	0	9,192,699

Current School Finance Law

A major overhaul of the school finance formulas was implemented as a result of House Bill 1 of the 79th Legislative Session and became effective for the 2006-2007 school year. Those formula changes had an effect on the district's financial impact from granting a property value limitation. Due to the district's "Hold Harmless" provision that was enacted in the funding formulas, some districts had the majority of the district's revenue losses in year three of the LAVA offset with additional state funding. The funding that was available to offset those revenue losses was called Additional State Aid for Tax Reduction (ASATR) and those funds were phased out as a result of legislation in the 82nd Legislative Session in 2011. This legislation eliminated the ASATR funding for fiscal year 2017-2018 and thereafter and can have a significant financial impact for LAVA agreements that have a year three in 2017-2018 or later. The loss of ASATR funding can again cause a district to experience a significant loss of funds in year three of the agreement and consequently cause the company to have revenue protection payments during that year that are similar to those experienced prior to 2006-2007.

Payments in Lieu of Taxes

Assuming that the District and Easter Renewable Energy Project, LLC mutually agree in the LAVA that $100 per student in average daily attendance (ADA) will be paid to Dimmitt ISD by Easter Energy, the projected amount of these payments over the life of the agreement is $1,372,755 of the $19.93 million net tax savings amount. This amount will be computed annually according to Section IV of the Agreement.

TABLE VI - Calculation of the Payment in Lieu of Taxes:

Fiscal Year	Net Tax Savings	Dimmitt ISD Share $100/ADA	Easter Energy's Share
2015-2016	0	108,802	(108,802)
2016-2017	0	108,258	(108,258)
2017-2018	(159,535)	107,716	(267,252)
2018-2019	3,221,958	107,178	3,114,780
2019-2020	3,098,048	106,642	2,991,406
2020-2021	2,977,097	106,109	2,870,989
2021-2022	2,860,985	105,578	2,755,407
2022-2023	2,749,517	105,050	2,644,467
2023-2024	2,642,508	104,525	2,537,983
2024-2025	2,539,779	104,002	2,435,777
2025-2026	0	103,482	(103,482)
2026-2027	0	102,965	(102,965)
2027-2028	0	102,450	(102,450)
Totals	**19,930,357**	**1,372,755**	**18,557,601**

Impact of Projected Student Growth

On District Facilities

TABLE VII – Campus Capacity and Available Growth

Campus Name	Grade Level	# of Regular Classrooms	Building Capacity	Current Enrollment	Enrollment Growth Available
Richardson Elem.	EE-4	43	860	558	302
Dimmitt Middle Sch.	5-8	43	774	354	420
Dimmitt High School	9-12	33	594	304	290
	Total		**2,228**	**1,216**	**1,012**

The building capacities are based on 20 students per classroom for elementary and 18 students per classroom for secondary. Dimmitt ISD is a early education through 12^{th} grade district.

Easter Renewable Energy Project, LLC provided supplemental information with their application that projected the number of full-time employees that are expected for permanent employment after construction of the project is completed. They projected that eight full-time employees are expected. It is not known whether these would be new employees to the Dimmitt ISD, or if current residents would occupy these positions; however, it is assumed that these employees would be new residents to the district.

Based on average statewide figures provided by a demographer, it is projected that each new household would produce .5 students. Thus, the new eight positions equates to 4 new students.

This minimal projected student growth can easily be accommodated with the current facilities of Dimmitt ISD as displayed in Table VII above.

Conclusion

This Financial Impact Study displays that entering into a Limited Appraised Value Agreement with Easter Renewable Energy Project, LLC, would be beneficial to both Easter Energy and Dimmitt ISD under the current school finance system.

Easter Renewable Energy Project, LLC would benefit from reduced property taxes during years three through ten of the LAVA. Although some of the tax savings would be used to offset district's revenue losses and payments in lieu of taxes to the District, Easter Energy is projected to benefit from a 96% tax savings over the first ten year period of this agreement. Easter Energy also has the option of terminating the Agreement if the amount paid to the District during a tax year is greater than the amount of taxes that would have been paid without the agreement; therefore, there is no inherent risk for the company from entering into the Agreement.

Dimmitt ISD would also have no inherent risk under the current school finance system and with the provisions in the LAVA that require Easter Energy to offset any district losses caused by the LAVA. An annual calculation will be performed each year to determine if a loss to the District has been incurred. The revenue impact to the District will be computed by comparing the District's revenues with and without the LAVA in effect.